

# **EXHIBIT H**

**LEHMAN BROTHERS UK CAPITAL FUNDING III LP**

Report and Accounts

For the year ended 30 November 2007

Registered No. LP 011140

**Lehman Brothers UK Capital Funding III LP**

---

Registered No. LP 011140

**PARTNERS**

LB GP No. 1 Limited – General Partner

Chase Nominees Limited – Initial Limited Partner

LB Investment Holdings Limited – Preferential Limited Partner

**BUSINESS ADDRESS**

25 Bank Street

London

E14 5LE

**AUDITORS**

Ernst & Young LLP

1 More London Place

London SE1 2AF

## Lehman Brothers UK Capital Funding III LP

---

### PARTNERS' REPORT

The partners present their report and accounts for the year ended 30 November 2007.

Lehman Brothers UK Capital Funding III LP is registered as a limited partnership under the Limited Partnership Act 1907.

The Limited partnership agreement was made on 17 February 2006 between the companies:

1. **LB GP NO. 1 LIMITED**, a company incorporated in England and Wales and a wholly owned subsidiary of Lehman Brothers Holding Inc whose registered office is at 25 Bank Street, London E14 5LE, United Kingdom ("the General Partner");
2. **CHASE NOMINEES LIMITED**, a company incorporated in England and Wales whose registered office is at 125 London Wall, London EC2Y 5AJ, United Kingdom ("the Initial Limited Partner"); and
3. **LB INVESTMENT HOLDINGS LIMITED**, a company incorporated in England and Wales and a wholly owned subsidiary of Lehman Brothers Holdings Inc whose registered office is at 25 Bank Street, London E14 5LE, United Kingdom ("the Preferential Limited Partner").

The capital contribution made by the partners is disclosed in note 11 of the accounts.

Under the partnership agreement, no Partner shall have any right to withdraw from the partnership or make a demand for withdrawal of any part of its Capital Contribution until the dissolution of the partnership.

Further, any distribution made on the distribution payment date shall not have the benefit of reducing, withdrawing, returning or eliminating any part of the Aggregate Capital Contributions.

A Limited Partner may make further Capital Contribution to satisfy any commitment or may be separately agreed with the General Partner in line with the Partnership Agreement.

Partners' profit and losses are allocated between them in accordance with the Partnership Agreement, which also governs the rights of partners regarding drawings.

### PRINCIPAL ACTIVITY

The principal activity of the Limited Partnership is to raise capital by issuing preferred securities to the Initial Limited Partner, which is then further lent on to Lehman Brothers Holdings PLC.

### REVIEW OF BUSINESS AND FUTURE DEVELOPMENTS

The profit after taxation for the year of Eur 521,854 (2006 – Eur 322,653) is set out on page 7 and has been transferred to the partner's current account (note 12).

The partners do not expect any significant changes to the business in the foreseeable future and the financial position of the partnership at the end of the year was satisfactory.

### EVENTS SINCE THE BALANCE SHEET DATE

On 30 January 2008 the partnership redeemed Eur 7,050,000 of the Perpetual Preferred Securities following the redemption of Subordinated notes issued by Lehman Brothers Holding PLC.

On 31 January 2008 the partnership redeemed Eur 5,000,000 of the Perpetual Preferred Securities following the redemption of Subordinated notes issued by Lehman Brothers Holding PLC.

On 12 March 2008 the partnership redeemed Eur 4,800,000 of the Perpetual Preferred Securities following the redemption of Subordinated notes issued by Lehman Brothers Holding PLC.

## Lehman Brothers UK Capital Funding III LP

### **GROUP RISK MANAGEMENT**

Risk management policies and procedures for Lehman Brothers Holdings Inc. and subsidiaries (the "Group") (including all international locations) are developed on a global basis.

As a leading global investment bank, risk is an inherent part of our businesses. Global markets, by their nature, are prone to uncertainty and subject participants to a variety of risks. Risk management is considered to be of paramount importance in our day-to-day operations. Consequently, we devote significant resources (including investments in employees and technology) to the measurement, analysis and management of risk.


The principal risks of the partnership and management of risk are disclosed in note 13 of the accounts.

### **DISCLOSURE OF INFORMATION TO THE AUDITORS**

So far as each person who was a partner at the date of approving this report is aware, there is no relevant audit information, being information needed by the auditor in connection with preparing its report, of which the auditor is unaware. Having made enquiries of fellow partners and the partnership's auditor, each partner has taken all the steps that it is obliged to take as a partner in order to make itself aware of any relevant audit information and to establish that the auditor is aware of that information.

### **AUDITORS**

The limited partnership is audited by Ernst & Young LLP.



29 AUG 2008

On behalf of the General Partner

## Lehman Brothers UK Capital Funding III LP

### **STATEMENT OF PARTNERS' RESPONSIBILITIES**

The partnership has a legal requirement under the Partnership Agreement of 17 February 2006 to produce annual accounts in accordance with the Partnerships and Unlimited Companies (Accounts) Regulation 1993 and the applicable United Kingdom Law and United Kingdom Generally Accepted Accounting Practice.

LB GP No. 1 Limited, acting as the General Partner has undertaken to produce an annual report under generally accepted accounting standards applicable in the United Kingdom, which give a true and fair view of the state of affairs of the partnership as at the end of the financial year and of the profit or loss for that year. In preparing those accounts the General Partner is required to:

- select suitable accounting policies and then apply them consistently;
- making judgements and estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the accounts on the going concern basis unless it is inappropriate to presume that the partnership will continue in business.

The partners are also responsible for ensuring that proper accounting records are kept which disclose with reasonable accuracy the financial position of the partnership and to enable them to ensure that the accounts comply with the Partnerships and Unlimited Companies (Accounts) Regulation 1993. They are also responsible for safeguarding the assets of the partnership and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.



## **INDEPENDENT AUDITORS' REPORT TO THE PARTNERS OF LEHMAN BROTHERS UK FUNDING III LP**

We have audited the limited partnership's accounts for the year ended 30 November 2007 which comprise the Profit and Loss Account, Balance Sheet and the related notes 1 to 15. These accounts have been prepared on the basis of the accounting policies set out therein.

This report is made solely to the partners of the partnership, as a body, in accordance with the Partnerships and Unlimited Companies (Accounts) Regulation 1993. Our audit work has been undertaken so that we might state to the partners those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the partners as a body, for our audit work, for this report, or for the opinions we have formed.

### **RESPECTIVE RESPONSIBILITIES OF PARTNERS AND AUDITORS**

The partners' responsibilities for preparing the accounts in accordance with applicable United Kingdom law and Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Partners' Responsibilities.

Our responsibility is to audit the accounts in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounts give a true and fair view and are properly prepared in accordance with the Partnerships and Unlimited Companies (Accounts) Regulation 1993. We also report to you whether in our opinion the information given in the Partners' Report is consistent with the accounts.

In addition we report to you if, in our opinion, the partnership has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding partners' remuneration and other transactions is not disclosed.

We read the Partners' Report and consider the implications for our report if we become aware of any apparent misstatements within it.

### **BASIS OF AUDIT OPINION**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgments made by the partners in the preparation of the accounts, and of whether the accounting policies are appropriate to the partnership's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounts are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts.



**OPINION**

In our opinion:

- the accounts give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the partnership's affairs as at 30 November 2007 and of its profit for the year then ended;
- the accounts have been properly prepared in accordance with the Partnerships and Unlimited Companies (Accounts) Regulation 1993; and
- the information given in the Partners' Report is consistent with the accounts.

*Ernst & Young LLP.*

Ernst & Young LLP  
Registered Auditor  
London

*29 Aug 2008*



## Lehman Brothers UK Capital Funding III LP

### PROFIT AND LOSS ACCOUNT

For the year ended 30 November 2007

		<i>Period from 17 Feb to 30 Nov 2006</i>
	<i>30 Nov 2007</i>	<i>30 Nov 2006</i>
	<i>EUR</i>	<i>EUR</i>
<i>Notes</i>		
Interest receivable and similar income	2 22,201,505	15,694,783
Interest payable	3 (21,679,651)	(15,372,130)
	<u>521,854</u>	<u>322,653</u>
<b>PROFIT ON ORDINARY ACTIVITIES BEFORE TAXATION</b>		
Taxation on profit on ordinary activities	5 —	—
	<u>521,854</u>	<u>322,653</u>
<b>PROFIT FOR THE FINANCIAL YEAR / PERIOD</b>		

### PROFIT APPROPRIATION ACCOUNT FOR THE YEAR ENDED 30 NOVEMBER 2007

	<i>EUR</i>	<i>EUR</i>
Profit to be shared	521,854	322,653
Share of Profit:		
General Partner – LB GP No. 1 Limited	4 —	—
Initial Limited Partner – Chase Nominees Limited	4 —	—
Preferential Limited Partner - LB Investment Holdings Limited	4 (521,854)	(322,653)
	<u>—</u>	<u>—</u>

There are no other gains or losses attributable to the partners of the partnership for the year ended 30 November 2007 and period ended 30 November 2006.

The results in the profit and loss account relate to continuing activities.

Lehman Brothers UK Capital Funding III LP

**BALANCE SHEET**

As at 30 November 2007

	Notes	30 Nov 2007 EUR	30 Nov 2006 EUR
<b>FINANCIAL ASSET</b>			
Available for sale – Money Market Investments	6	12,247,900	15,322,653
Loans and receivables	7	389,015,713	497,577,953
		<u>401,263,613</u>	<u>512,900,606</u>
<b>CURRENT ASSETS</b>			
Debtors: amounts falling due within one year	7	11,690,928	14,969,178
<b>CURRENT LIABILITIES</b>			
CREDITORS: amounts falling due within one year	8	(11,690,928)	(14,969,178)
		<u>—</u>	<u>—</u>
<b>NET CURRENT ASSETS</b>			
		<u>401,263,613</u>	<u>512,900,606</u>
<b>TOTAL ASSETS LESS CURRENT LIABILITIES</b>			
CREDITORS: amounts falling due after more than one year	9	(389,015,712)	(497,577,952)
		<u>12,247,901</u>	<u>15,322,654</u>
<b>FINANCED BY:</b>			
Partners' capital accounts	11	12,000,001	15,000,001
Partners' current accounts	12	247,900	322,653
		<u>12,247,901</u>	<u>15,322,654</u>

The financial statements and the notes to the accounts on pages 7 to 17 were approved by the General Partner on ..... and were signed on their behalf by:

29 AUG 2008



Lehman Brothers UK Capital Funding III LP

NOTES TO THE ACCOUNT  
As at 30 November 2007

1. ACCOUNTING POLICIES

***Basis of Preparation***

The accounts of Lehman Brothers UK Capital Funding III LP have been prepared under the historical cost convention except for financial assets and liabilities measured at fair value, incorporating applicable accounting standards in the United Kingdom and in accordance with The Partnerships and Unlimited Companies (Accounts) Regulation 1993.

The partnership has taken advantage of the exemption in paragraph 5(a) of Financial Reporting Standard 1 (revised) from producing a statement of cash flows.

***Functional and Presentation Currency***

The Accounts are expressed in Euros which is the partnership's functional and presentation currency.

***Accounting Policies***

The partnership has taken advantage of the exemption in paragraph 2(d) of Financial Reporting Standard (FRS) 29 (Financial Instruments Disclosures) from disclosing the detailed financial instruments notes as a result of the early adoption of the Accounting Standard by the partnership's Ultimate Parent Undertaking.

***Interest Income***

Interest Income is recognised in the income statement using the effective interest method for the Subordinated Notes and the Perpetual Preferred Securities. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

***Dividend Income***

Dividend Income on the Money Market Investments is recognised in the income statement when they are distributed.

***Financial Instruments***

Financial instruments within the scope of FRS 26 are classified either as financial assets or liabilities at fair value through profit or loss, loans and receivables, held-to-maturity investments, available for sale investments or financial liabilities at amortised cost, as appropriate. After initial recognition, all financial liabilities are measured at amortised cost using the effective interest rate method except for financial liabilities at fair value through profit or loss.

The partnership determines the classification of its financial assets on initial recognition depending upon the purpose for which the financial instruments were acquired and their characteristics. Where allowed and appropriate, the partnership re-evaluates this designation at each financial year end. It considers whether a contract contains an embedded derivative when the entity first becomes party to it, and determines the appropriate classification at this time.

***(i) Loans and receivables***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially recognised on settlement date at fair value, being the transaction price plus directly attributable transaction costs. After initial measurement, loans and receivables are subsequently carried at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the profit and loss account when the loans and receivables are derecognised or impaired, as well as through the amortisation process. The Subordinated notes have been classified as Loans and receivables.

Lehman Brothers UK Capital Funding III LP

NOTES TO THE ACCOUNT  
As at 30 November 2007

1. ACCOUNTING POLICIES (CONTINUED)

*(ii) Available for sale investments*

Available for sale investments are non-derivative financial assets that are designated as available for sale or are not classified as fair value through profit or loss, loans and receivables and held to maturity. Available for sale investments are initially recognised at fair value and are subsequently carried at fair value with unrealised gains or losses being recognised in the available for sale reserves in the preferential limited partners' current account until the investment is either sold or impaired.

Available for sale investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured, are measured at cost.

When the investment is disposed of, the cumulative gain or loss previously recognised in the available for sale reserves is transferred into the preferential limited partners' current account. Any foreign exchange gains or losses arising on available for sale financial investments are recognised in profit and loss.

Dividends earned whilst holding available for sale investments are also recognised in the profit and loss account under interest receivable and similar income.

The Money market investments have been classified as Available for sale investments as the partnership does not intend to hold the investments to maturity.

*(iii) Financial liabilities at amortised cost*

Issued financial instruments are classified as financial liabilities where the substance of the contractual arrangement results in the partnership having an obligation either to deliver cash or another financial asset to the holder.

The Perpetual preferred securities have been classified as financial liabilities at amortised cost and are measured initially at fair value of consideration received less directly attributable transaction costs and subsequently measured at amortised cost using the effective interest method.

Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the effective interest rate.

*Fair values*

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

The fair value of a financial instrument on initial recognition is normally the transaction price (i.e. the fair value of the consideration given or received). The fair value of derivatives is determined using independent price sources and industry standard modelling techniques, as appropriate.

The fair values of quoted investments are determined by reference to quoted market prices or dealer price quotations (bid price for long positions and offer price for short positions) at the close of business on the balance sheet date, without any deduction for transaction costs. However, if part of the consideration given or received is for something other than the financial instrument or where there is no active market, the fair value of the financial instrument is estimated, using a valuation technique.

*Impairment*

The partnership assesses at the balance sheet date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date, and that loss event has had an impact on the estimated future cash flows of the financial asset that can be reliably estimated. The calculation of the present value of the expected future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure cost for obtaining and selling the collateral whether or not foreclosure is possible.

Lehman Brothers UK Capital Funding III LP

NOTES TO THE ACCOUNT  
As at 30 November 2007

1. ACCOUNTING POLICIES (CONTINUED)

*Impairment of financial assets at amortised cost*

The partnership assesses if there is objective evidence that an impairment loss on subordinated notes carried at amortised cost has been incurred. The loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the loss is recognised in the profit and loss account.

*Impairment of financial assets available for sale*

The partnership assesses at the balance sheet date whether there is objective evidence that the money market investments are impaired. A financial asset is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more loss events that occurred after the initial recognition of the asset and prior to the balance sheet date, and that loss event has had an impact on the estimated future cash flows of the financial asset that can be reliably estimated. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset is removed from the available for sale reserves and transferred into the preferential limited partners' current account. If in a subsequent period, the fair value of the money market investments classified as available for sale increase and the increase can be objectively related to an event occurring after the impairment loss, the impairment loss is reversed through to the available for sale reserve from the preferential limited partners' account.

*Derecognition*

Financial assets and liabilities are recognised and derecognised according to the substance of the transaction. A financial asset is derecognised where no significant benefits or risks are retained. A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

2. INTEREST RECEIVABLE AND SIMILAR INCOME

	30 Nov 2007	Period from 17 Feb to 30 Nov 2006
	EUR	EUR
Finance cost receivable on subordinated notes issued by other group undertakings	17,770,696	15,372,130
Gains from buy back of perpetual preferred securities	3,908,955	-
Dividend Income receivable on money market investments	521,854	322,653
	<u>22,201,505</u>	<u>15,694,783</u>

3. INTEREST PAYABLE

	30 Nov 2007	Period from 17 Feb to 30 Nov 2006
	EUR	EUR
Finance cost payable on perpetual preferred securities	(17,770,696)	(15,372,130)
Loss on buy back of subordinated notes issued by other group undertaking	(3,908,955)	-
	<u>(21,679,651)</u>	<u>(15,372,130)</u>

Lehman Brothers UK Capital Funding III LP

## NOTES TO THE ACCOUNT

As at 30 November 2007

**4. PROFIT AND LOSS ACCOUNT**

The partnership had no employees during the year (2006: nil).

The audit fee is borne by a group company (2006: nil).

There was no income distribution paid to the General Partner and the Initial Limited Partner during the year (2006: nil).

The income due to the Preferential Limited Partner on the Money market investment is taken to the Partner's current account until the income is distributed.

During the year a income distribution of Eur 596,607 was paid to the Preferential Limited Partner from the partner's current account (2006: nil).

**5. TAX ON PROFIT ON ORDINARY ACTIVITIES**

No provision for taxation has been made in the account. Each participant is exclusively liable for tax liabilities arising out of their interest in the partnership and this will be assessed on them and not the partnership.

**6. AVAILABLE FOR SALE – MONEY MARKET INVESTMENTS**

	30 Nov 2007 EUR	30 Nov 2006 EUR
Money Market Investments	12,247,900	15,322,653

On 22 February 2006, the partnership subscribed to Money market investments of Lehman Brothers AAA Euro Liquidity Fund, listed on the Irish Stock Exchange, maturing on 22 February 2011.

The partnership's investment in the money market fund of Lehman Brothers AAA Euro Liquidity Fund expose it to credit risk that the issuer of the security, Lehman Brothers AAA Euro Liquidity Fund will be unable to repay the dividend and principal in a timely manner.

The maximum amount of the credit exposure as at 30 November 2007 is Eur 12,247,900 (2006: Eur 15,322,653).

	30 Nov 2007 EUR	30 Nov 2006 EUR
Notional at the beginning of the year / period	15,322,653	-
Notional subscribed during the year / period	521,854	15,322,653
Redemption during the year	(3,596,607)	-
	12,247,900	15,322,653

On 7 June 2007 the partnership redeemed, Eur 3,596,607 of the Money market investments.

During the year dividend income of Eur 521,854 was received and reinvested with an equivalent value of shares received with a nominal value of Eur 1 per share (2006: Eur 322,653).

## Lehman Brothers UK Capital Funding III LP

## NOTES TO THE ACCOUNT

As at 30 November 2007

## 7. LOANS AND RECEIVABLES

	30 Nov 2007 EUR	30 Nov 2006 EUR
<b>(a) Debtors: amount falling due after one year</b>		
Amount receivable from other group undertakings	1	1
Financial asset at amortised cost - Subordinated notes issued by other group undertakings	389,015,712	497,577,952
	<u>389,015,713</u>	<u>497,577,953</u>

On 22 February 2006, the partnership has subscribed to Subordinated notes of Lehman Brothers Holding PLC which was issued at a discount of 99.435%, listed on the Channel Islands Exchange, maturing on 22 February 2036. The notes are not actively traded on the exchange. The interest rate on the notes is 3.875% for the first five years and thereafter three month Euribor + 1.60%. The interest is receivable on 22 February each year from and including 22 February 2007 to 22 February 2011 and quarterly each year from 22 May 2011 to and including the termination date.

The effective interest rate of 4.0019% has been used to calculate the amortised value of the Subordinated notes as at the year end date 30 November 2007 (2006: 4.0019%).

The partnership's investment in the subordinated notes of Lehman Brothers Holdings PLC expose it to credit risk that the issuer of the subordinated notes, Lehman Brothers Holdings PLC will be unable to repay interest and principal in a timely manner. The maximum amount of the credit exposure as at 30 November 2007 is Eur 389,015,712 (2006: Eur 497,577,952).

	30 Nov 2007 EUR	30 Nov 2006 EUR
Notional at the beginning of the year / period	500,000,000	-
Notional subscribed during the period	-	500,000,000
Redemption during the year	(109,500,000)	-
	<u>390,500,000</u>	<u>500,000,000</u>

On 17 May 2007 and 29 May 2007, Eur 93,150,000 and Eur 14,000,000 of the issued Subordinated notes were redeemed by Lehman Brothers Holdings PLC.

On 20 November 2007, Eur 2,350,000 of the issued Subordinated notes were redeemed by Lehman Brothers Holdings Plc.

	30 Nov 2007 EUR	30 Nov 2006 EUR
<b>(b) Debtors: amount falling due within one year</b>		
Interest receivable from other group undertakings on subordinated notes	11,690,928	14,969,178
	<u>11,690,928</u>	<u>14,969,178</u>

The maximum amount of the credit exposure as at 30 November 2007 is Eur 11,690,928 (2006: Eur 14,969,178).

## Lehman Brothers UK Capital Funding III LP

## NOTES TO THE ACCOUNT

As at 30 November 2007

## 8. CREDITORS: AMOUNTS FALLING DUE WITHIN ONE YEAR

	30 Nov 2007	30 Nov 2006
	EUR	EUR
Interest payable on perpetual preferred securities	(11,690,928)	(14,969,178)
	<u>(11,690,928)</u>	<u>(14,969,178)</u>

## 9. CREDITORS: AMOUNTS FALLING DUE AFTER MORE THAN ONE YEAR

	30 Nov 2007	30 Nov 2006
	EUR	EUR
Financial liabilities at amortised cost - Perpetual preferred securities	(389,015,712)	(497,577,952)
	<u>(389,015,712)</u>	<u>(497,577,952)</u>

On 22 February 2006, the partnership issued Guaranteed Non-voting Non-cumulative Perpetual Preferred Securities which was issued at a discount of 99.435%, listed on the London Stock Exchange. The Perpetual Preferred Securities are guaranteed by Lehman Brothers Holding PLC and include an optional redemption clause that may be exercised by the General Partner if the Subordinated notes issued by Lehman Brothers Holding PLC are redeemed.

The interest rate on the Perpetual Preferred Securities is 3.875% for the first five years and thereafter three month Euribor + 1.60%. The interest is payable on 22 February each year from and including 22 February 2007 to 22 February 2011 and quarterly each year from 22 May 2011 to and including the termination date.

The effective interest rate of 4.0019% has been used to calculate the amortised value of the Perpetual Preferred Securities as at the year end date 30 November 2007 (2006: 4.0019%).

	30 Nov 2007	30 Nov 2006
	EUR	EUR
Notional at the beginning of the year / period	500,000,000	-
Notional subscribed during the period	-	500,000,000
Redemption during the year	(109,500,000)	-
	<u>390,500,000</u>	<u>500,000,000</u>

On 17 May 2007 and 29 May 2007, Eur 93,150,000 and Eur 14,000,000 of the Perpetual Preferred Securities were redeemed following the redemption of Subordinated notes issued by Lehman Brothers Holding PLC (note 7).

On 20 November 2007, Eur 2,350,000 of the Perpetual Preferred Securities were redeemed following the redemption of Subordinated notes issued by Lehman Brothers Holding PLC (note 7).

The partnership has not had any default of principal, interest or any other breaches with respect to their liabilities for the financial year (2006: nil).



## Lehman Brothers UK Capital Funding III LP

## NOTES TO THE ACCOUNT

As at 30 November 2007

## 10. FAIR VALUES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

	30 Nov 2007 Carrying value EUR	30 Nov 2007 Fair Value EUR
<b>Financial Assets</b>		
(i) Loans and receivables	1	1
- Amount receivable from other group undertakings		
- Financial asset at amortised cost - Subordinated notes issued by other group undertakings	389,015,712	347,709,010
- Debtors: Amounts falling due within one year	11,690,928	11,690,928
(ii) Available for Sale – Money Market Investments	12,247,900	12,247,900
	<u>                    </u>	<u>                    </u>
<b>Financial Liabilities</b>		
(i) Financial liability at amortised cost	(389,015,712)	(347,709,010)
- Perpetual Preferred Securities	(11,690,928)	(11,690,928)
(ii) Creditors: Amounts falling due within one year		
	<u>                    </u>	<u>                    </u>
	30 Nov 2006 Carrying value EUR	30 Nov 2006 Fair Value EUR
<b>Financial Assets</b>		
(i) Loans and receivables	1	1
- Amount receivable from other group undertakings		
- Financial asset at amortised cost - Subordinated notes issued by other group undertakings	497,577,952	489,975,000
- Debtors: Amounts falling due within one year	14,969,178	14,969,178
(ii) Available for Sale – Money Market Investment	15,322,653	15,322,653
	<u>                    </u>	<u>                    </u>
<b>Financial Liabilities</b>		
(i) Financial liability at amortised cost	(497,577,952)	(489,975,000)
- Perpetual Preferred Securities	(14,969,178)	(14,969,178)
(ii) Creditors: Amounts falling due within one year		
	<u>                    </u>	<u>                    </u>

The fair value of quoted instruments is determined by reference to bid prices at the close of business on the balance sheet date. Where there is no active market, fair value is determined using the valuation techniques. These include using recent arm's length market transactions; reference to the current market value of another instrument which is substantially the same; discounted cash flow analysis and pricing models.

The fair value approximates the carrying value of the year end balance of the debtors – amounts falling due within one year and the creditors – amounts falling due within one year.

Lehman Brothers UK Capital Funding III LP

NOTES TO THE ACCOUNT  
As at 30 November 2007

11. PARTNERS' CAPITAL ACCOUNTS

Capital Accounts

	<i>General Partner EUR</i>	<i>Initial Limited Partner EUR</i>	<i>Preferential Limited Partner EUR</i>	<i>Total EUR</i>
At 1 December 2006	1	—	15,000,000	15,000,001
Capital Redemption during the year	—	—	(3,000,000)	(3,000,000)
At 30 November 2007	1	—	12,000,000	12,000,001

12. PARTNERS' CURRENT ACCOUNTS

Current Accounts

	<i>General Partner EUR</i>	<i>Initial Limited Partner EUR</i>	<i>Preferential Limited Partner EUR</i>	<i>Total EUR</i>
At 1 December 2006	—	—	322,653	322,653
Share of profit	—	—	521,854	521,854
Distribution during the year	—	—	(596,607)	(596,607)
At 30 November 2007	—	—	247,900	247,900

Loan Accounts

There are no loan accounts held by the General Partner, Initial Limited Partner and the Preferential Limited Partner during the year (2006: nil).

13. FINANCIAL RISK MANAGEMENT

**Market price risk** – Market price risk can be defined as the uncertainty from future price movements of the financial instrument issued and invested in by the partnership. Market price risk arises mainly from economic factors and is not limited to interest rate and currency movements. This exposure to market price risk may result in substantial fluctuations in the market price of the issued preferred securities and the invested subordinated notes from time to time. The partnership seeks to minimise these risks by holding the same notional value of the invested subordinated notes and the issued perpetual preferred securities as the market price of the two financial instruments are linked.

**Currency risk** – Foreign currency risk is the risk that the value of the partnership's investments and issued debt will fluctuate as a result of changes in foreign exchange rates. The partnership is not exposed to currency risk because the issued perpetual preferred securities and the investment in the subordinated notes are both in the same currency.

Lehman Brothers UK Capital Funding III LP

NOTES TO THE ACCOUNT

As at 30 November 2007

**13. FINANCIAL RISK MANAGEMENT. (CONTINUED)**

**Credit risk** – The partnership's transactions in the subordinated notes expose it to the risk that the counterparty will not be able to honour its contractual obligation to deliver the investment for the purchase or cash for a sale. The issuer's sole source of funds to pay distribution on the preferred securities will be payments which it receives from its investments in the subordinated notes issued by Lehman Brothers Holding PLC. The perpetual preferred securities will benefit from a subordinated guarantee entered into by Lehman Brothers Holding PLC which is a wholly owned subsidiary of Lehman Brothers Holdings Inc. which is the parent company of the Lehman Brothers group of companies.

**Liquidity risk** – The assets of the partnership include subordinated notes that are issued by Lehman Brothers Holding PLC.

Whilst, the preferred securities has no fixed final redemption date, the securities carry an optional redemption clause that may be exercised by the General partner to redeem the preferred securities if the subordinated notes issued by Lehman Brothers Holding PLC are redeemed.

**Interest rate risk** – Interest rate risk is the risk that the value of the partnership's investments and issued debt will fluctuate as a result of changes in interest rates. Investments and Issued debt with fixed or floating rates may experience substantial fluctuations in net cash flow and valuation for changing interest rate. If interest rates rise, the income potential of the investment or issued debt may rise or fall depending on if the interest rate is fixed or floating and vice versa.

**14. ULTIMATE PARENT UNDERTAKING**

The Ultimate parent undertaking of Lehman Brothers UK Capital Funding III LP is LB GP No.1 Limited, a company incorporated in England and Wales and a wholly owned subsidiary of Lehman Brothers Holding Inc.

The largest group in which the results of the partnership are consolidated is that headed by LB GP No.1 Limited. The consolidated financial statements of the group are available to the public from 25 Bank Street, London E14 5LE.

The partnership has taken advantage of the exemption in paragraph 3(c) of Financial Reporting Standard 8 from disclosing transactions with related parties that are part of Lehman Brothers Holdings Inc.

**15. POST BALANCE SHEET EVENTS**

On 30 January 2008 the partnership redeemed Eur 7,050,000 of the Perpetual Preferred Securities following the redemption of Subordinated notes issued by Lehman Brothers Holding PLC.

On 31 January 2008 the partnership redeemed Eur 5,000,000 of the Perpetual Preferred Securities following the redemption of Subordinated notes issued by Lehman Brothers Holding PLC.

On 12 March 2008 the partnership redeemed Eur 4,800,000 of the Perpetual Preferred Securities following the redemption of Subordinated notes issued by Lehman Brothers Holding PLC.